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ABSTRACT

The Council of Ontario Universities, in view of important decisions to be made about the financing of university education, addresses a brief to the governments of Canada and Ontario. Discussed are: (1) the tripartite approach; (2) federal, provincial and university responsibilities; (3) federal-provincial funding arrangements; (4) the fiscal transfer; (5) payments to persons and institutions. An evaluation of the present situation leads to the recommendations that the refinancing of university education through higher tuition fees plus generous student aid, and the direct support of graduate studies by the federal government be carefully examined. (Author/KE)

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BRIEF TO THE CANADIAN AND ONTARIO GOVERNMENTS ON THE FINANCING OF HIGHER EDUCATION IN CANADA

U.S. DEPARTMENT OF HEALTH, EDUCATION & WELFARE
NATIONAL INSTITUTE OF EDUCATION

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Council of Ontario Universities

Conseil des Universités de l'Ontario

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Brief to the Canadian and Ontario Governments
on the Financing of Higher Education in Canada

I Introduction

The Council of Ontario Universities, conscious of the important decisions to be made about the financing of university education, addresses this brief to the Government of Canada and the Government of Ontario. References to Ontario in the brief where one might have expected a general reference to all provinces do not imply any desire for unique consideration for Ontario, but merely reflect our greater familiarity with conditions in our own province and the fact that we are addressing Queen's Park as well as Parliament Hill.

II Tripartite Approach

Viewing the universities of Canada as a national asset contributing to Canadians' intellectual, cultural and economic development and as an essential element of provincial educational services, COU further emphasizes that the universities are more than both of the foregoing: they are full members of a fraternity of universities encircling the globe, seeking to transmit and enlarge the knowledge and wisdom of all mankind; and they are also full members of their local communities with ties and shared interests with their civic neighbours. Their viewpoint covers a wide spectrum. Their basic requirement for

academic freedom derives from the necessity for them to set their own objectives, so that they may meet many needs and fulfill many responsibilities, without being subservient to any single patron.

Universities are therefore vitally interested in the federal-provincial negotiations that will determine the sources of their support. Although Canadian experience in general, and certainly Ontario experience, have demonstrated the readiness of governments to respect and defend academic freedom, there are examples in other countries illustrating the potential danger that where one single authority "pays the piper" for universities, the temptation for it to "call the tune" is strong. Here in Canada it is not only traditional, but inevitable, that both federal and provincial governments are involved in the support of universities. Even if it wished to do so neither level of government could avoid influencing the composition and quality of the Canadian universities. For example, all the activities of these institutions are tied in with or reflect the conduct of research in Canada, and the research policies of both levels of government have a corresponding effect on them.

The federal-provincial negotiations which are of such crucial importance to the universities have often been influenced

almost exclusively by the financial officers of the respective jurisdictions. And in the intervals between negotiations it has not been easy for the universities' voice to be heard. The Association of Universities and Colleges of Canada has not had adequate access either to the Canadian Government or to the group of provincial Ministers of Education that is becoming increasingly influential. The contacts of individual universities with their respective provincial governments are close, but encompass only one dimension of this multi-dimensional problem. Moreover, the recent changes in the economy have had great repercussions on the universities' financial situation, while at the same time the character of enrolment demands is greatly altered, requiring different kinds of response; both these changes deserve sustained examination before future financial arrangements are finally settled.

The Council of Ontario Universities is therefore asking for a prolongation of the current federal-provincial arrangements for at least two years; we are also asking for a tripartite approach to the revision of those arrangements, beginning at the earliest possible moment. To explore the various alternatives that should be considered -- especially now when all jurisdictions with taxing powers are re-examining their roles and responsibilities -- will require from all three interested parties sustained effort, foresight, and understanding.

We are extremely anxious that this process be started immediately and that the universities take part in it. We acknowledge that in the past three years when these studies should have been made by universities and governments, they were not made; this is evidence that we need an immediate start on a three-way engagement. What the Macdonald Report said about university research -- that it is an enterprise involving three partners, the federal government, the provincial governments, and the universities -- is also true of university education as a whole. If university education is "too important to be left to the educators", it is also too complex and sensitive to be disposed of without them.

III Division of Responsibilities: Federal

Canada is judged in the scientific and scholarly world by the quality of her university education and research, and the Canadian Government has an undeniable interest in this aspect of national life. Whatever the constitutional complexities, there is no denying that the level of Canadian citizens' education -- as of their health, welfare, safety and mobility -- is a responsibility in which the Government of Canada has a share.

We suggest that, in principle, the federal responsibilities in the area of university education should include the following:

III.1 the equalization of educational opportunity for all Canadians at the university level, either by enabling provincial jurisdictions to support complete services, or by supporting arrangements that provide partial services plus interprovincial mobility, or by some combination of these; it is important to preserve the situation in which, as the late President George Gilmour of McMaster University put it, Canadian academic currency is redeemable at par across the land.

III.2 following from III.1, the assurance of accessibility to university education for the economically disadvantaged Canadian students through a minimum-level guarantee of student aid.

III.3 following also from III.1, the interprovincial mobility of the highly qualified manpower produced by universities. The portability of academic and professional credentials is of federal concern.

III.4 following also from III.1, but in a sense the other side of the coin: the assurance of the existence of some programmes and institutions of international repute, and of some first-rate work in fields where only one or few programmes can be supported properly.

III.5 the amount, scope, distribution, and quality of research both basic and applied, and of literary and artistic creativity and scholarship.

III.6 the support of university programmes related directly to national purposes, such as bilingualism.

III.7 the support and (where appropriate) coordination at the national level of unique academic resources such as archives, museums and rare book collections, and of costly academic services such as library, audiovisual, and computer networks.

III.8 the fulfillment of international obligations involving university personnel, such as assistance to Third World universities and governments and teacher and student exchanges.

IV Division of Responsibilities: Provincial

We suggest that the provincial governments, which have the primary responsibility for the provision of opportunities for higher education in their provinces, have in principle responsibilities which include the following:

IV.1 the provision of access to university courses for qualified and desirous students to the extent that this

lies in provincial competence and fits with provincial priorities.

IV.2 the equalization of individual opportunity for higher education within the province including distribution and/or supplementation of federal student aid.

IV.3 the countering of geographic barriers impeding accessibility either by broad distribution of university facilities or by enabling the mobility of prospective students, or both.

IV.4 the provision of adequate facilities for the training of highly qualified manpower in the numbers and to the levels likely to be required in the province.

IV.5 more specifically, the provision of facilities for training the numbers of highly qualified manpower required for the operation of provincial services such as schools and health services.

IV.6 where applicable, the provision of university facilities for francophone and anglophone citizens of the province.

IV.7 the support of religious, cultural and educational diversity to the extent that these are provincial objectives and attainable through the province's system of higher education.

V Division of Responsibilities: Universities

We suggest that the universities' responsibilities in this context include the following:

V.1 the maintenance within the institution of academic standards acceptable to the Canadian university community at large; this involves assembling competent teacher/researchers, establishing admission requirements indicating a capacity for work at university level, formulating curricula and methods of evaluation, and ensuring availability of those facilities that are essential to the programmes offered.

V.2 the determination, in cooperation with the provincial government and with other post-secondary institutions within or beyond the province, of a division of responsibilities that will ensure diversity of opportunity and avoid unnecessary duplication.

V.3 responding to those local needs for adult education

which the universities are solely qualified, or best qualified, to meet, including reinforcement of professional skills, retraining for vertical or lateral mobility, and cultural enrichment.

V.4 monitoring any research conducted in the institution for consonance with generally accepted standards of objectivity and non-secrecy.

V.5 as a new responsibility: to devise a means of ensuring cross-Canada determination of standards in the graduate area through a Canadian method of programme appraisal.

VI Present Federal-Provincial Funding Arrangements

Addressing the National Conference of Canadian Universities at its 1956 conference on "Canada's Crisis in Higher Education", the Right Honourable Louis St. Laurent described the involvement of the Government of Canada in the support of higher education since Confederation and announced that the direct federal grants established in 1951 would be doubled, and that NCCU would be asked to distribute them. One paragraph of his address is of contemporary relevance:

"I happen to be the head of a government that does not manufacture the money it spends. It

> digs down in the pockets of all the Canadian taxpayers to get it, and we of the government are merely trustees on behalf of all those Canadian taxpayers. The proposals I am putting forward, I look upon as a good sound investment of the taxpayers' money and so do my colleagues."

The Government of Canada supports post-secondary education in two principal ways: (a) by a fiscal transfer to provincial governments, enabling and encouraging them to offer generous support to colleges and universities, and (b) by payments to persons and institutions in the form of research support, resource-augmenting grants to universities, and student aid.

VI.1 The Fiscal Transfer

In 1967 the Government of Canada undertook to transfer to the provincial governments a sum equivalent to one-half the cost of post-secondary education. The federal contribution took the form of (a) the allocation of "tax points" to provincial governments, and (b) an adjustment payment of such a size as to bring the total fiscal transfer to 50% of the operating expenditures of post-secondary institutions. (An alternative formula, based on a fixed

per capita amount, was also offered; it proved more advantageous to Newfoundland, Prince Edward Island and New Brunswick.)

In 1972 changes were introduced in the Fiscal Arrangements Act, limiting increases in the federal contribution to 15% in any one year and lessening the visibility of the federal role. According to the 1976 formula, taxpayers who were residents of provinces (i.e., all taxpayers save non-residents of Canada and residents of the Yukon and North West Territories) were permitted to "abate" or reduce their federal taxes by 4%; simultaneously the federal government reduced its corporation taxes by 1%. As a consequence, the provincial governments could raise their taxes by like amounts without imposing a heavier burden upon their taxpayers (whether individual or corporate), and the revenue could be applied to post-secondary education. The fiscal arrangements introduced in 1972, however, removed the abatement mechanism. With the termination of specific earmarking of the "tax points" in relation to post-secondary education, the only visible part of the federal contribution to post-secondary education became the adjustment payments. In Ontario this perspective may underlie the tendency to regard the universities merely as part of the tertiary level

of the provincial educational system, rather than as autonomous institutions bearing certain social responsibilities and fulfilling certain public purposes, and, consequently, appropriately supported by both levels of government as well as by non-governmental contributors. Table I indicates the total grants from the federal government, and the proportion represented by adjustment payments.

TABLE I

Federal Financial Contribution to Post-Secondary Education, Canada and Ontario, 1967-8 to 1975-6

	Total Fiscal Transfer ($ million)		Adjustment Payments ($ million)		Adjustment payments as a % of operating expenditures of post-secondary institutions	
	Canada	Ontario	Canada	Ontario	Canada	Ontario
1967-68	422	149	182	51	21.8	17.3
1968-69	527	198	234	79	22.4	19.9
1969-70	650	248	305	108	23.7	21.7
1970-71	789	300	408	143	26.1	23.9
1971-72	930	347	486	165	26.4	23.8
1972-73	1,012	368	482	152	24.0	20.6
1973-74	1,117	408	445	137	20.1	16.8
1974-75	1,277	461	504	148	19.2	16.0
1975-76	1,468	531	540	165	17.8	15.3

Sources: (O.E.C.D.): Review of Educational Policies in Canada: Government of Canada Report, 1975: and figures supplied by the Department of the Secretary of State (Canada).

VI.2 Payments to Persons and Institutions

In addition to making general contributions to the provincial governments, the federal government has contributed to universities by the funding of basic research through the National Research Council, the Medical Research Council and the Canada Council, and to applied research through some federal departmental support of mission-oriented research.

The Canada Student Loan Plan is the federal government's response to the demand for a basic student aid programme, to which the various provinces can add what they believe their provincial circumstances require.

The federal government has also made grants through its research councils having the effect of developing and improving the quality of university resources, both physical and human, through programmes of library grants, sabbatical leave fellowships, grants for special facilities and the like.

Table II indicates the size of federal payments in the categories above, and compares the magnitude of such payments with the fiscal transfer to provincial governments.

TABLE II

Payments to Persons and Institutions
1972-3 and 1974-5

(Figures are in $ million)	1972-73		1974-75
I Research Grants and Fellowships			
National Research Council	53.6		58.8
Medical Research Council	34.0		41.0
Canada Council	6.8		8.8
Government Departments	13.3		n/a
TOTAL	107.8	107.8	
II Grants to Universities (Research & Auxiliary Grants)			
National Research Council	3.0		1.3
Medical Research Council	-		-
Canada Council	1.5		0.7
Government Departments	8.9		n/a
TOTAL	13.5	13.5	
III Contract Research with Faculty & Universities			
Government Departments	7.5	7.5	n/a
IV Student Aid Fellowships, bursaries and scholarships			
National Research Council	10.3		9.2
Medical Research Council	1.3		1.1
Canada Council	9.2		9.3
Government Departments	5.3		n/a
Subtotal	26.0		
Loans (interest payments, loss claims, death claims, and collection fees): "less than":	25.0		
TOTAL STUDENT AID	51.0	51.0	
GRAND TOTAL		170.8	
Compare with: Adjustment payments to Provinces 1972-73		481.8	
TOTAL FISCAL TRANSFER 1972-3		1,012.1	

Sources: For 1972-73: (O.E.C.D.): Review of Educational Policies in Canada: Government of Canada Report, 1975. For 1974-75: National Research Council, Medical Research Council and Canada Council, but other information not available.

VII Evaluation of Present Arrangements

Direct federal assistance reached the Canadian universities in 1951 at a time of crisis of serious dimensions. The post-war influx of veterans was almost gone, along with their subsidy from the Department of Veterans' Affairs, but enrolments did not shrink back to pre-war "normalcy". The provincial governments did not at that time regard the universities as their responsibility in the same sense as the other levels of education, and they were trying to cope with the "baby boom" in the elementary schools. Thus the Canada-wide appeal for federal support conducted over several years by the NCCU had undertones of desperation. The Massey Report and the subsequent federal grants provided the universities of Canada with increased means to offer educational services to the Canadian public, and the universities have been deeply aware of the fact that had the federal government not provided such support to universities across the land, this country could not have equipped itself with a system of higher education commensurate with the requirements of a technologically and organizationally complex society.

In the years since 1967, federal assistance to the provinces has enabled them to support universities to a level which offered a high degree of accessibility to

higher education for their population during a difficult period of adaptation to the many unheralded changes in social demands made upon universities -- the shifts of student interest from the Sputnik-inspired build-up of physical sciences and engineering, the explosion of interest in the social sciences, the recent concentration of demands in the life sciences and certain professions; the stop-out phenomenon and consequent discontinuity; the rise of part-time study and renewed interest of adults; the altered life-style, rejection of authority based on tradition, and finally the interest in extending opportunities to minority groups and women.

It is also noteworthy that the federal government's support of research has been, in financial terms, much more modest than its general grants to the provincial governments (see Table II, above) but research support has had an enormous impact in improving facilities and encouraging the professional development of scholars and researchers -- and keeping them in Canada.

Resource-augmenting grants to universities and assistance to students (see Table II, items II & IV) have also been vital in developing a system of higher education which

has achieved high standards of excellence, and in making it accessible to Canadians from all regions and all social backgrounds.

Notwithstanding these very considerable achievements, there remain opportunities for improving the current arrangements.

The funding of research does not include indirect costs; this makes it difficult for institutions to support the research efforts of their staff. The Macdonald Report, pp. 135 ff., identifies very clearly the processes of fund transfer and budgeting which result in federal research grants distorting the university budgetary process: the grants do not cover indirect costs, the provincial grants as a rule do not give separate recognition to such costs, and the universities therefore must cover the costs through budgetary allocations at the sacrifice of support for teaching programmes, non-assisted research, or services such as those provided by libraries, laboratories and data-processing centres.

The AUCC has presented a cogent case for federal support for centres of excellence, library development, computer services development, and the creation of machine-readable data archives. The universities of Ontario wish to emphasize the importance of such services to the quality of higher education in Canada, and to the equalization of facilities on a regional basis. A relatively modest financial con-

tribution to encourage the development of such facilities would undoubtedly have a large and favourable impact on the quality and accessibility of advanced instruction and research.

TABLE III

Federal Adjustment Payments to Provincial Governments for Post-Secondary Education, 1974-75

	Nfld.	P.E.I.	N.S.	N.B.	Que.
Adjustment payment ($ million)	5.45	1.22	17.72	6.87	229.76
Adjustment payment per capita	9.18	9.61	23.73	9.86	35.14
Per capita operating expenditures of post-secondary institutions	66.79	59.15	106.36	68.06	137.11
Adjustment payment as a percentage of operating expenditures of post-secondary institutions	15.1	17.5	20.4	15.1	27.2

	Ont.	Man.	Sask.	Alta.	B.C.	All Prov.
Adjustment payment ($ million)	147.51	18.40	15.24	47.51	13.93	503.61
Adjustment payment per capita	17.46	15.71	14.50	30.06	6.56	21.58
Per capita operating expenditures of post-secondary institutions	112.90	99.09	96.15	118.29	78.66	111.68
Adjustment payment as a percentage of operating expenditures of post-secondary institutions	16.0	18.4	17.3	23.0	7.3	19.20

Sources: Calculated from figures supplied by the Department of the Secretary of State (Canada); and from Statistics Canada: Quarterly Estimates of Population for Canada and Provinces, 1967-75

Regarding the fiscal transfer arrangements as they have developed, it is germane to note that changes in Canadian social structure and social needs during the post-war decades have generated imbalances between responsibility and revenue which have strained the relationships of local, regional, provincial and federal governments. This situation which is common in federal political systems has encouraged some provinces to view the distribution of revenues between the federal and provincial governments as anomalous and any tax points surrendered to them by the federal government as being rightfully theirs. In the case of the tranfers in support of post-secondary education, as mentioned above, the most visible part of the federal contribution has become the adjustment payments. Obviously it will do nothing for equity among the provinces or unity within the nation if the federal contribution comes to be regarded, not as one-half the cost of post-secondary education, but merely as the diminishing and potentially disappearing portion represented by the adjustment payments. It would be greatly preferable if the entire federal contribution were definitely identified with, and earmarked for, the support of post-secondary education.

It will be noted, from the data provided in Table III, that the size of the adjustment payment varies widely, on a <u>per capita</u> basis, between provinces. It is decidedly <u>not</u> the case that the adjustment payment is highest for those provinces which obtain the lowest yield from the "tax points", as would be the case if the fiscal transfer

were essentially an equalization payment. Nor is it highest for those provinces which have the highest expenditure per capita on post-secondary education, as would be the case if the fiscal transfer were essentially a shared-cost programme. The adjustment payment for any one province reflects both the yield from the tax points and the operating expenditures of post-secondary institutions (which, like the adjustment payments, vary widely between provinces on a per capita basis). The "15% clause" in the 1972 Fiscal Arrangements Act, by limiting the increase in the total federal contribution to each province in any one year, perpetuates, and may actually increase, the interprovincial disparity in the per capita adjustment payments.

An attractive feature of the fiscal transfer scheme is that it has left provincial governments free to design a network of post-secondary institutions appropriate to cultural and social conditions and serving special provincial needs. It is none the less obvious that the population of some provinces is too small to sustain extensive post-secondary systems, and the interprovincial mobility of students is a means of equalizing educational opportunity. Such mobility has further advantages in increasing intellectual stimulus by encouraging diversity amongst students' backgrounds, and it supports national unity by fostering mutual understanding among the regions of Canada. Thus interprovincial mobility of students should be taken as a major concern of the Government of Canada in its policies for the support of post-secondary education. Indeed, it is

already the case that some universities serve an interprovincial clientele, and the provinces in which those universities are located have a disproportionately large share of the national university student population. The fiscal transfer scheme, however, does not adequately compensate those provinces which bear an additional burden in educating a large number of students from outside the province, and it increases the difficulty of creating interprovincial systems except on the basis of a delicate trade-off in which, for each province, the influx of students is presumed to be balanced by a comparable efflux.

The considerations mentioned in the previous paragraph are especially serious where specialized programmes, such as those in forestry or criminology, are involved. Such programmes, if they are to be viable, must draw upon an interprovincial and perhaps an international clientele. Thus the universities of Ontario would welcome more direct federal support for specialized programmes, and perhaps for graduate work in general. Indeed, graduate work is typically interprovincial and even national or international in terms of the clientele it serves and the training it provides.

Our evaluation of the current federal-provincial arrangements for the support of post-secondary educational institutions leads the universities of Ontario to propose that the current arrangements for federal grants to the provinces be continued for a period of two

years to enable the tripartite discussions (referred to in Section II) to develop a method of recasting the federal support scheme so that it would contribute more effectively to:

(a) the working-out of a logically defensible division of responsibilities between the two levels of government and the universities;

(b) give greater visibility to the various sources of funds for post-secondary education;

(c) produce greater stability of funding than the present system;

(d) encourage the interprovincial mobility of students; and

(e) enable universities more easily to serve the needs of an interprovincial and national clientele as well as their provincial clientele.

Without pre-judging the results of the discussions, we express the hope that two suggested schemes, in particular, will receive careful examination: the refinancing of university education through higher tuition fees plus generous student aid, and the direct support of graduate studies by the federal government, including direct programme support as well as major research-graduate programme facilities. The concept of a system involving higher fees has been put forward in several forms, of which Porter, Porter and Blishen's Does Money Matter?, pp. 206, and Cook and Stager's Student Financial Assistance Programs, pp. 225 ff., are examples. The proposal for the support of graduate work was developed in Chapter 10 of Towards 2000, a

chapter which was largely the work of President Pauline Jewett.

As an interim measure, the Government of Canada could take a number of highly beneficial though financially modest immediate initiatives in relation to the funding of research, resource-augmenting grants to universities, and the 15% clause of the 1972 Fiscal Arrangements Act.

VIII Recommendations

VIII.1 That the current arrangements for the payment of federal grants to the provincial governments in support of university education be continued for a period of at least two years and that during that period, commencing immediately, thorough studies be conducted of the entire philosophy and practice of university funding with the participation of federal, provincial and university personnel.

VIII.2 That the longer-term studies referred to above should include, among various alternatives, the consideration of the following:

a) the refinancing of post-secondary education through higher student fees plus a generous grant and loan programme of student aid for those with limited means;

b) direct federal support of graduate work.

VIII.3 That the Canadian government modify its research-grant policies and provide the additional funding necessary to cover also the indirect costs of research.

VIII.4 That since the Government of Canada may wish to restrict any increase in its grants to the provinces in support of post-secondary education in accordance with federal and provincial policies of restraints on increased spending, a national policy on an agreed level of increase be formulated.

VIII.5 That in the tripartite discussions which we advocate, the national and provincial bodies representing the universities be given an opportunity to advise on major changes in university support.